

Investment Office Roadmap

Quarterly Progress Report

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Today's Focus

- INVO From-To Vision
- Roadmap Strategic Priorities
- Accomplishments – July through December 2011
- Upcoming Deliverables – January through June 2012
- Next Steps

Investment Office “From-To” Vision

FROM

TO

Long-term, static allocation framework

More dynamic framework, responsive to market conditions

Risks not transparent and understood

Key risks understood and managed

Tactical, asset class-based approaches to building strengths and competencies

Clear sense of our strengths and competencies we want to develop

Bottom up approach to value creation

Integrated strategies for value creation that blend cross-asset class approaches

Lack of common systems, processes and analytics

Clear target operating model – strong operational data, governance, systems, and controls

Inconsistent culture and employee experience

Sustain a high performance culture and employee experience

Inadequate reporting systems and data for effective cost management

Better expense tracking and reporting systems, and improved cost management

Roadmap Strategic Priorities

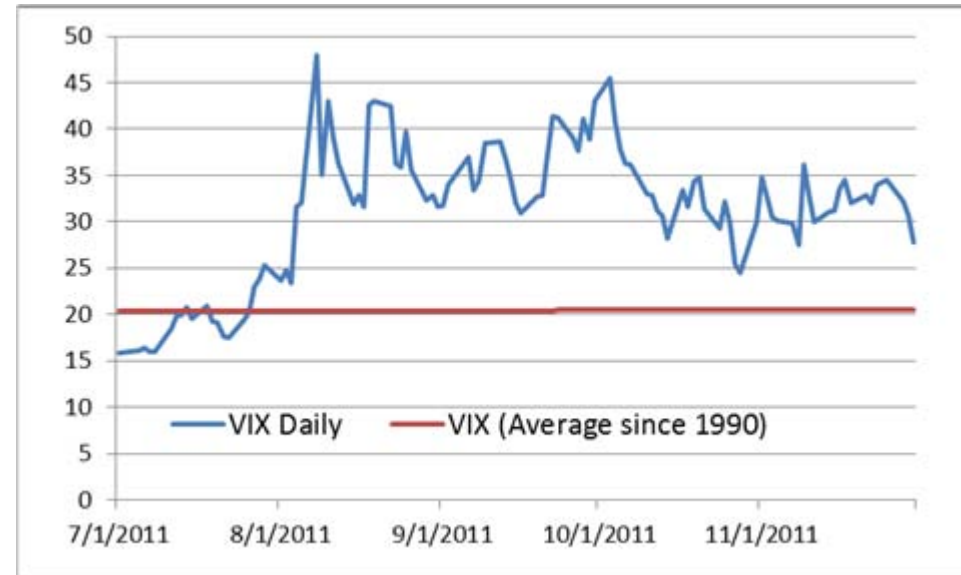
- Achieve Investment Performance Targets
- Establish New Capital Allocation Framework
- Strengthen Risk Management
- Strengthen Organization Systems and Controls
- Improve Cost Effectiveness
- Enhance Talent Management

Significant Accomplishments: Investment Performance

Total Fund Return as of October 31, 2011

Fiscal YTD	Return	(2.7%)	(32) bps
	Benchmark	(2.4%)	
One Year	Return	6.7%	(35) bps
	Benchmark	7.0%	

VIX Index: July 1 to October 31, 2011



- Fiscal YTD October fund performance of (2.7%) is 32 bps below the benchmark
- Performance is challenged due to market volatility and significant widening of credit spreads
- Fund diversification is helping returns. Equity markets are down 9.6% from July 1 to October 31
- Navigated a difficult and highly volatile market environment; staff executed several large rebalancing trades since August 1

Significant Accomplishments: Investment Performance

Progress in implementing asset class and program strategic plans to drive improved performance vs. benchmarks

AIM

- Developed and presented new strategic plan to Investment Committee
- Completed initial ranking of all funds within the portfolio to identify the best performing funds in support of portfolio rationalization efforts

Real Assets

- Developed plan for CA infrastructure investing and state and local government outreach
- Implementing the strategic plan approved by the Investment Committee consistent with the new role of Real Estate
- Transferred \$7.8 billion of GAV to strategic partners
- Restructured \$2.5 billion of GAV to enhance control and/or improve terms and conditions

Global Equity

- Fully implemented Global Equity capital allocation model and decision making process

Significant Accomplishments: Investment Performance

Absolute Return Strategies

- Obtained Investment Committee approval for methodology for allocating capital to the program; began to implement the equitization strategy

Global Fixed Income

- Insourced \$8 billion in assets to de-risk short-term cash exposure
- Hired 2 PMs to internally manage commodities and sovereign portfolios
- Funded and began managing a new \$7 billion liquidity portfolio

Affiliate Programs

- Implemented new affiliate asset allocation policies
- Initiated supplemental income plans strategic review

Corporate Governance

- Launched Diverse Director Data Source
- Held sustainable investing workshop with Investment Committee regarding integration of environmental, social, and governance factors into investment decision making

Significant Accomplishments: Capital Allocation and Risk Management

Capital Allocation

- Completed implementation of new asset allocation framework
- Launched multi-asset class partners selection process
- Completed investment beliefs workshop(s) with the Board and the Investment Office Leadership Team

Risk Management

- Established an Investment Compliance and Operational Risk Division
 - Hired Head of Division and Compliance Manager
- Implemented an operating event escalation and reporting process
- New risk system implementation team achieved key milestones, including completion of user acceptance testing, report design, and data integration

Significant Accomplishments: Org. Systems & Controls and Cost Effectiveness

Organization Systems and Controls

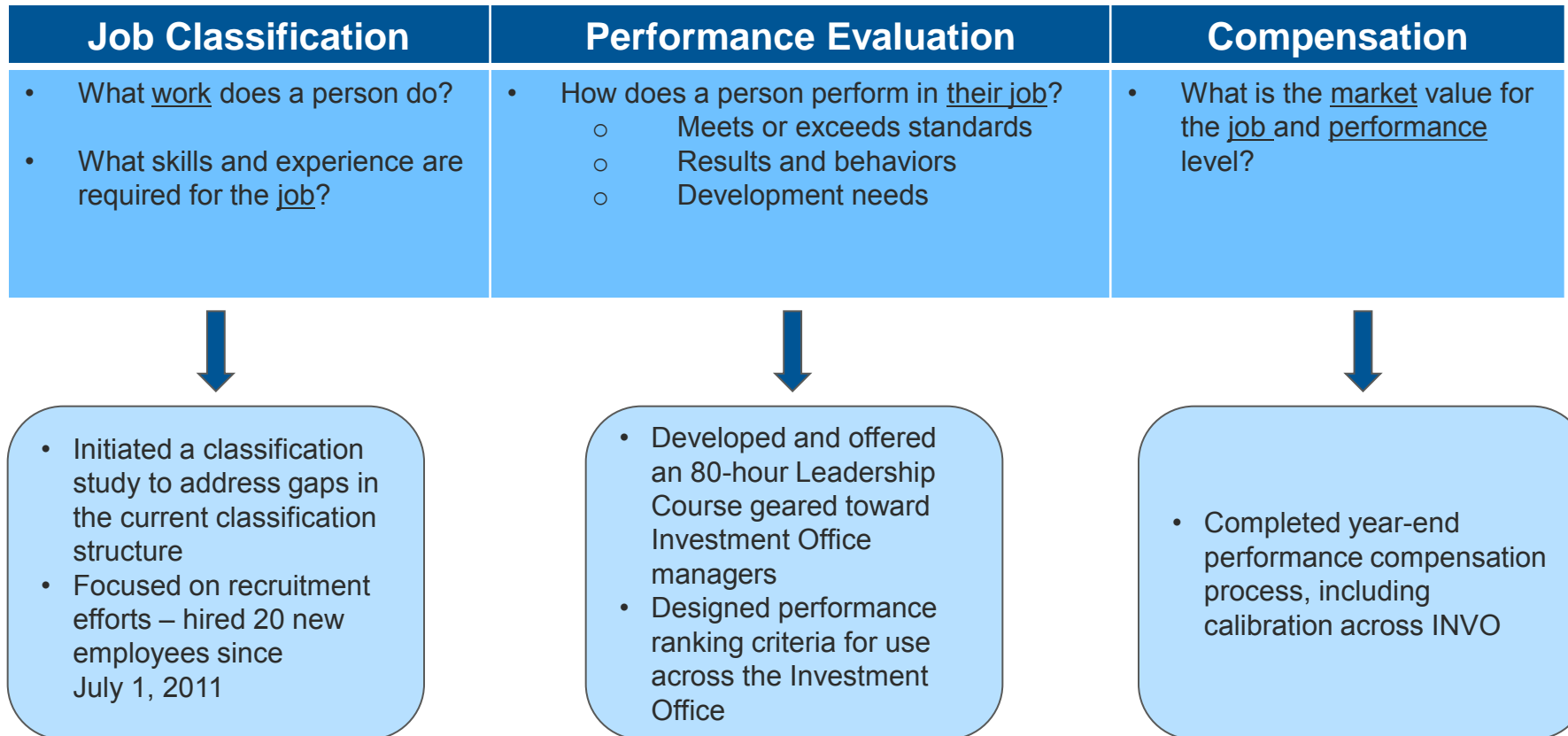
- Completed a key target operating model work stream by transitioning custody relationship to new service model
- Multiple projects underway; status reported in separate Target Operating Model presentation

Cost Effectiveness

- Negotiated annual savings of approximately \$20.9 million
 - Reduction of fees and costs in an AIM partnership by \$7.4 million annually
 - Removed underperforming managers and renegotiated manager fees for an expected annual savings of \$7.5 million in Global Equity
 - Renegotiated the UBS contract in ARS for an annual savings of approximately \$6 million
- Identified new global peer group through CEM and joined advisory board to enable more relevant cost and value benchmarking
- Completed design phase for expense management and tracking project

Significant Accomplishments: Talent Management

Created a strategic approach for staff development and retention



Rapid Results Projects

A planned 100-day project that achieves a tangible, bottom-line result

Operational Delegations

- Goal: consolidate items that need signatures and are delegated powers
- 50-Day Accomplishments: Discovered 350 items that require signature approval and began mapping commonalities to result in consolidation

Contract Terms and Conditions

- Goal: Improve Investment Office contracting process
- 50-Day Accomplishments: Identified improvements that will result in an alignment of contract services with appropriate terms and conditions

Investment Committee Calendar Review

- Goal: Streamline and standardize the Investment Committee calendar in-line with the adopted Board Governance Study
- 50-Day Accomplishments: Assessed Investment Committee meetings based upon topic categories and program areas; developed recommendations for improvement

Key Deliverables Over the Next 6 Months

Investment Performance

- ➔ AIM will close on two separate account mandates at economics more favorable than market terms
- ➔ Approval of the portfolio guidelines for Global Fixed Income
- ➔ Finalize implementation plan for ESG Strategy
- ➔ Develop Forestland strategic plan for Investment Committee discussion and approval
- ➔ Executing on the Real Estate strategic plan by finalizing agreements with core partners
- ➔ Present a strategy for the Supplemental Income Plans to the Investment Committee

Key Deliverables Over the Next 6 Months

Risk Management

- ➔ Go live with new risk management system and use to deliver more robust risk information to the Investment Committee and ISG

Cost Effectiveness

- ➔ Pilot an expense tracking and reporting system and process
- ➔ Complete benchmarking the Investment Office cost, staffing, and resource structure against comparable organizations and present to the Investment Committee

Talent Management

- ➔ Finalize classification study recommendations and create implementation plan
- ➔ Complete compensation survey

Next Steps

- ➡ Aim for focused, incremental, tangible wins to build support and accelerate progress
- ➡ Continue to improve how we add value
- ➡ Bring INVO Strategic Plan and 2012-13 Roadmap to February Investment Committee Meeting